

COST IMPACT SUPPLEMENT
to the
“Report on Social Service Contracting Practices”
prepared by the
Task Force on Agency Vendor Contracting Practices

On November 1, 1999 copies of the “Report on Social Service Contracting Practices” published by the Task Force on Agency Vendor Contracting Practices were provided to the House of Representatives State Government Committee, Senate State and Local Government Committee, and the Director of the Office of Financial Management (OFM). The report indicated that a comprehensive cost benefit analysis would be issued as a supplemental document at a later date. This document contains the information gathered from state agencies, an analysis of the benefits to be gained by implementation of the Task Force’s recommendations, and an estimate of the potential cost of the recommendations.

The recommendations of the Task Force were targeted to strengthen areas in current state contract management practices for social service contracts. The Task Force recognized that no single action taken independently would serve as the remedy in a complex system with so many components and players. The recommendations are directed to the needs of: 1) state staff responsible for developing and managing social service contracts; 2) contractors responsible for delivering the services and meeting state contract expectations; and 3) independent auditors, state oversight agencies, and others that perform specific roles in support of the social service contract administration system.

The recommendations of the Task Force can be grouped into three central strategies:

Increasing the expertise of those responsible for making the social service contract administration system work well.

Promoting coordination and information sharing within and among agencies to establish more effective oversight and reduce duplication of effort for contractors that contract with multiple state agencies or programs.

Addressing the perceived gaps in the state’s social services contracting and contract oversight structure.

Each of the strategies will be discussed separately with an analysis of the financial and social costs, risks associated with maintaining the status quo, and benefits of the recommendations. Under each strategy are the specific recommendations.

Two cost tables follow: Table 1 reflects the estimated cost impact to agencies with primary fiscal impact by Task Force recommendation, and Table 2 reflects projected costs by agency if all recommendations were implemented. An analysis of each type of fiscal impact is discussed in the later sections with individual agency fiscal notes attached as exhibits to this report.

**Table 1--
SUMMARY OF ESTIMATED COST IMPACT OF
TASK FORCE RECOMMENDATIONS**

Recommendations	Agencies with Primary Fiscal Impact	FY-00	FY-01	FY-02	FY-03
CONTRACT ADMINISTRATION GUIDELINES FOR STATE STAFF	OFM— Hire Project Coordinator (1 FTE) to coordinate all OFM activities required under the recommendations.	\$ 18,000	\$ 72,000	\$ 72,000	\$ 72,000
	Finalize Guidelines document and publish, hard copy and on-line. Maintain and update the materials.	\$ 20,000	\$ 10,000	\$ 2,000	\$ 2,000
SUB-TOTAL		\$ 38,000	\$ 82,000	\$ 74,000	\$ 74,000
STATE STAFF TRAINING – CONTRACT ADMINISTRATION AND RELATED TRAINING RESOURCES	OFM— Develop training on Contract Administration and Audit Requirements and prepare training resources, such as the Contract Administration Guidelines Workbook.	\$ 25,000	\$ 12,000	\$ 5,000	\$ 5,000
	DSHS— Conduct Contract Administration training: FY-02 – 4.0 FTE's and equipment purchase FY-03 – 4.0 FTE's	\$ 0	\$ 0	\$ 285,000	\$ 252,000
SUB-TOTAL		\$ 25,000	\$ 12,000	\$ 290,000	\$ 257,000
CONTRACTOR TRAINING AND TECHNICAL ASSISTANCE— • Uniform Financial Management Training • Contractor Resource Guide	OFM— Trainer to develop initial training materials and training offered several times a year.	\$ 0	\$ 70,000	\$ 45,000	\$ 45,000
	Project Coordinator (FTE is included above in Guidelines section) to coordinate development of training for contractors; develop and publish resource guide; contract for training.	\$ 13,000	\$ 4,000	\$ 5,000	\$ 5,000
SUB-TOTAL		\$ 13,000	\$ 74,000	\$ 50,000	\$ 50,000

Recommendations	Agencies with Primary Fiscal Impact	FY-00	FY-01	FY-02	FY-03
COORDINATION OF STATE AGENCY CONTRACTING <ul style="list-style-type: none"> Interagency Quality Improvement Team Develop Central Contract Database for Client Social Services 	OFM— Coordinate Interagency Quality Improvement Team (1 FTE cost included in Guidelines section)	\$ 0	\$ 0	\$ 0	\$ 0
	DSHS— Coordination of state contracting activities FY-01 and 02 – 6.8 FTE's FY-03 – 5.8 FTE's Equipment	\$ 0	\$ 490,000	\$ 490,000	\$ 415,000
		\$ 0	\$ 355,000	\$ 0	\$ 0
	OFM— Develop and maintain central contract database and equipment (FY-01, FY-02, FY-03-- .5 FTE)	\$ 0	\$ 330,000	\$ 78,000	\$ 78,000
SUB-TOTAL		\$ 0	\$1,175,000	\$ 568,000	\$ 493,000
RISK-BASED AUDITING BY STATE AGENCIES	DSHS— Conduct audits FY-01 – Hire staff to conduct audit FY-02 and –03 – Estimate 10,132 audits	\$ 0	\$ 54,000	\$1,163,000	\$1,163,000
	DOH— Estimating 60 audits	\$ 0	\$ 0	\$ 480,000	\$ 480,000
	OSPI— Estimating 31 audits	\$ 0	\$ 0	\$ 41,000	\$ 41,000
SUB-TOTAL		\$ 0	\$ 54,000	\$1,684,000	\$1,684,000
IMPLEMENTATION OF GUIDELINES-Contract Administration and Monitoring	DSHS--- FY-02 – 22.1FTE and FY-03-21.8 FTE	\$ 0	\$ 0	\$1,749,000	\$1,548,000
SUB-TOTAL		\$ 0	\$ 0	\$1,749,000	\$1,548,000
GRAND TOTAL		\$ 76,000	\$1,397,000	\$4,415,000	\$4,106,000

**Table 2—
PROJECTED COSTS IF ALL RECOMMENDATIONS FULLY IMPLEMENTED**

Agency Name	Fiscal Year 2000		Fiscal Year 2001			Fiscal Year 2002			Fiscal Year 2003		
	FTEs	GF-State	FTEs	GF-State	Other	FTEs	GF-State	Other	FTEs	GF-State	Other
Office of Financial Management	1.0	\$76,000	1.5	\$498,000	\$0	1.5	\$207,000	\$0	1.5	\$207,000	\$0
Office of Superintendent of Public Instruction		\$0		\$0	\$0		\$41,000	\$0		\$41,000	\$0
Department of Health		\$0		\$0	\$0		\$480,000	\$0		\$480,000	\$0
Department of Social & Health Services		\$0	7.8	\$464,000	\$435,000	33.9	\$2,179,000	\$1,508,000	32.6	\$1,994,000	\$1,384,000
Department of Community, Trade & Economic Development		\$0		\$0	\$0		\$0	\$0		\$0	\$0
Employment Security Department		\$0		\$0	\$0		\$0	\$0		\$0	\$0
Department of Veterans Affairs		\$0		\$0	\$0		\$0	\$0		\$0	\$0
TOTALS	1.0	\$76,000	9.3	\$962,000	\$435,000	35.4	\$2,907,000	\$1,508,000	34.1	\$2,722,000	\$1,384,000
1999-2001 Biennium Totals	\$1,473,000										
2001-2003 Biennium Totals	\$8,521,000										

ESTIMATED COST IMPACT – SUMMARY COMMENTS OF COST OF IMPLEMENTING TASK FORCE RECOMMENDATIONS BY OTHER STATE AGENCIES

The Department of Community, Trade and Economic Development, the Employment Security Department, and the Department of Veterans Affairs have indicated that the Task Force recommendations would be implemented with existing resources. The Office of the Superintendent of Public Instruction anticipates that the Task Force recommendations, with the exception of the cost of the risk-based audits, can be implemented with existing resources. The Department of Health has estimated costs for the risk-based audits, but will determine implementation costs for the other recommendations in the future.

Some of the costs that agencies would absorb include: changes in process and documentation based on the Contract Administration Guidelines for Social Service Contracts, staff time to attend training, staff time to participate on Interagency Quality Improvement Team meetings and/or projects, additional technical assistance to contractors, additional contract monitoring and coordination, training on and use of the central contract database, and the cost of risk-based audits.

The Department of Social and Health Services (DSHS) indicated that the benefits of implementing the Task Force recommendations could help offset some of the costs of implementing them. Recognizing that DSHS manages approximately 40,000 social service contracts, a significantly greater number than all other state agency social service contracts combined, implementation costs are estimated accordingly.

Increasing Expertise

- **GUIDELINES: Issue “best practice” guidance on social service contracting by OFM for state agencies based on the draft Contract Administration Guidelines for Social Service Contracts, Appendix B to the Task Force report.**

The 1998 Washington state legislature in Engrossed Second Substitute House Bill 2880 directed the Task Force to consider whether uniform contract guidelines were appropriate or necessary as a means of improving statewide practices relating to client social service contracts. The absence of uniform contract management guidelines was one of the primary issues identified by the House Select Committee on Vendor Contracting.

The Task Force recommended that guidelines be issued by OFM based on those drafted by a Task Force work group. The guidelines address five major areas of contract administration: 1) Contractor selection; 2) Contract provisions; 3) Contract management and monitoring; 4) Contract cost and financial provisions; and 5) Audit. The guidelines include a set of guiding principles for state administration of client social service contracts. These principles are: accountability, fiscal responsibility, collaboration, contractor selection, well-qualified contractors, effective oversight, and leadership and guidance. The guidelines would be finalized by OFM and published in both hard copy format and electronic format.

COST:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
OFM	\$ 38,000	0	\$ 82,000	1	\$ 74,000	1	\$ 74,000	1

Note: The estimated costs for OFM include the salary and benefits of a Project Coordinator. The Project Coordinator would be responsible not only for coordinating the publishing of the Contract Administration Guidelines and updating them, but also for all other OFM oversight and coordination activities included in the Task Force recommendations. These include: 1) developing curriculum for and coordination of staff training on the Guidelines, and development of additional staff resource materials; 2) coordinating the development of contractor training curriculum; 3) developing contractor resource materials and updating as needed; 4) coordinating the contractor training with a consultant hired to provide the training; 5) leading the interagency quality improvement team and providing on-going research for this group; and 6) coordinating the development of the central contractor database.

RISKS OF MAINTAINING STATUS QUO:

- ✓ The state will continue to contract for billions of dollars of social services without published guidance relating to contract management, and contract practices will continue to be inconsistent within and among agencies.
- ✓ As the trend to contract for social services continues to increase, more dollars will be spent and risks will increase.
- ✓ Contractors will continue to be confused and frustrated about state compliance requirements.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ Contracting practices would become more consistent and more closely mirror the practices found in private industry and best practices in the public sector. Agencies would improve their business practices, improving the state's image in the eyes of the public. Proactive measures that minimize or prevent overpayments and maximize value for taxpayer dollars make better headlines than state legal actions and collection efforts.
- ✓ State agency staff would have a resource that would define key contract expectations and effective practices and which would help them efficiently administer and monitor contracts resulting in greater accountability of public funds. Confusion about policies and procedures would be reduced.
- ✓ Contractors would have clearer guidance on state expectations. Many of the problems in the past have been due to a lack of understanding of what the state expects. Consistent practices by state agencies would provide more consistent contract performance.
- ✓ Contractors, state contract administrators, and the public would have uniform guidance to follow, which would make the relationships more predictable, consistent and better understood.

➤ STAFF TRAINING AND RESOURCES: OFM would coordinate development of a standard contract administration training curriculum and resource guide for use by state agency experts to train state contract, program and fiscal staff who are responsible for agency social service contracts.

The Task Force recommended that OFM coordinate the development of a standard contract administration training curriculum and a resource guide for state staff. A standard curriculum would provide consistent information and guidance on best social service contract administration practices. The standard curriculum would be modeled around the topics covered in the draft contract administration guidelines developed by the Task Force. To help minimize costs and ensure the training content reflects specific state interests, the Task Force suggests that a team of state agency representatives could deliver much of the training. The resource materials developed based on the training curriculum could be used in conjunction with the training or accessed for individual use as needed. State agencies could also develop and provide contractor monitoring and other customized training to meet their own agency needs.

Most state staff responsible for social service contract administration currently learn the skills and knowledge needed to perform these duties on the job. Until recently, little formal training was provided by individual state agencies. Most agencies indicated that a lack of resources has limited their ability to provide training beyond what has been delivered through on-the-job consultation.

COSTS:

The estimated costs for the development of training and publishing resource materials are:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
OFM	\$ 25,000	0	\$ 12,000	0	\$ 5,000	0	\$ 5,000	0

The estimated costs for staff training are:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
DSHS	\$0	0	\$0	0	\$285,000	4	\$252,000	4

Note: Employment Security Department, Department of Health, Department of Community, Trade and Economic Development, Superintendent of Public Instruction, and Department of Veterans Affairs indicated that this recommendation can be implemented with existing resources.

RISKS OF MAINTAINING STATUS QUO:

The risks of maintaining the status quo are huge, both financially and socially. Contracting out for services has increased 144% statewide over the past decade. Often overlooked in contracting out is the cost to the agencies for contract management, including contract monitoring and auditing. With the exception of auditing, contract management functions are best handled by state agency staff who are most familiar with program requirements. Because contract management is an administrative function, these staff positions are more likely to be impacted by FTE and budget cuts. Having sufficient agency staff who are trained and dedicated to sound contract management is critical to reducing risks associated with contracting out.

- ✓ One state agency determined that most of its overpayments to contractors result from staff error rather than contractor error. This agency expects that providing ongoing training to staff who are involved in approving contractor invoices could significantly reduce overpayments.
- ✓ State agencies risk losing federal funds where the agency fails to properly designate services as personal, client, or purchased, and where contractors are inappropriately designated as vendors when they are, in fact, subrecipients of federal funds. One agency had to return \$800,000 in federal funds last fiscal year because contracted services were incorrectly procured as client services rather than personal services. In another contract, \$500,000 of federal funds would have been lost due to incorrectly classifying the contractor as a vendor rather than a subrecipient if the program had not had other federal-match funds available to cover this error. By training contract, program and fiscal staff to properly characterize services and contractors, the risk of losing federal funds is reduced.
- ✓ Taxpayer concern about government waste is becoming stronger and stronger. Taxpayers are asking government to be more accountable for their tax dollars. Taxpayers expect that

agency staff know how to perform their jobs properly. Lack of knowledge or resources is not an acceptable excuse.

- ✓ Agency staff are struggling to meet the demands of their jobs. Highly trained social service staff are now being asked to perform tasks that they have never been trained for. Privatization of social services has meant that agency staff who were providing one-on-one services are now being asked to be contract administrators, and in many cases to perform both functions with no reduction in caseload. In all fairness to staff, adequate contract administration training should be provided so they can perform this new responsibility competently. Inconsistent or no training leads to the type of problems that have occurred in the past.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ Staff would receive adequate training and knowledge to competently perform the contract administration and monitoring function and improve the quality of their work. Initially the basic training would be provided frequently and across the state to reach as many program managers, contract staff, and fiscal staff as possible. It is conservatively estimated that there are approximately 800 to 1,000 state staff that need contract training. Advanced training could be provided to contracting staff and staff that have signature authority. Resource materials will be available in hard copy format and electronic format.
- ✓ Staff contract administration errors would be reduced. Training should result in clearer, more consistent contracts being written which would provide greater assurance that agencies and contractors have a mutual understanding of the compliance expectations and requirements. Trained staff could provide better monitoring and follow-up on audit findings.

➤ CONTRACTOR TRAINING AND RESOURCES: Deliver financial management training for contractors coordinated through OFM and develop a social service contract administration resource guide for contractors.

Both the House Select Committee and the Task Force recognized that contractor problems related to financial and administrative accountability often stem from a lack of knowledge of rules and requirements, as well as lack of technical assistance and training. The Task Force formed a work group to develop recommendations for addressing these issues.

A training curriculum would be developed to provide contractors standard guidance on fiscal management requirements. The curriculum would cover: internal controls, cost allocation including the implications of using multiple funding sources, allowability and eligibility of expenditures, billing for services, and financial record keeping and reporting requirements for state client social service contracts.

Curriculum development and delivery would be accomplished through a consultant, working in partnership with an advisory team representing state agencies responsible for social service contracting, the Attorney General's Office, OFM, the State Auditor's Office, and contractors. Training would be made available on a periodic basis at multiple locations around the state to

make it easily accessible to contractors. Training fees would not be charged; however, contractors would be expected to cover travel and other costs related to participation.

A contractor resource guide covering what is required to contract with the state, targeted specifically for social service contractors, would be developed and coordinated through OFM. The resource guide would cover: typical state social service contracting processes, basic state contracting requirements, fiscal management and administrative systems required to meet contract obligations, and contract information for specific types of services. The resource guide would include a self-assessment tool that would enable prospective and new contractors to evaluate their current management and administrative capabilities, and determine whether additional systems or strengthening of existing systems are needed to meet contracting requirements. The resource guide would be made available on-line as well as in hard copy form.

COSTS:

The estimated costs do not include the cost of the OFM project coordinator, which were included in the Guidelines section. This FTE would be providing the coordination of training and development and maintenance of resource materials.

The estimated costs for contractor training are:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
OFM	\$0	0	\$70,000	0	\$45,000	0	\$45,000	0

The estimated costs for contractor resource materials are:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
OFM	\$13,000	0	\$4,000	0	\$5,000	0	\$5,000	0

RISKS OF MAINTAINING STATUS QUO:

- ✓ Contractors are often not aware of all the complex state compliance requirements. They may be able to provide outstanding services for the agency clients, but lack an understanding of all the financial and administrative management requirements. When there is a misunderstanding regarding the compliance requirements, the contractor will also be put in a difficult financial situation. Resources may have to be diverted which could then impact the services to the state's clients.
- ✓ The state could unnecessarily restrict its contracting to organizations of a certain size or years of proven experience. The needs of agency clients are very diverse. In some parts of the state the availability of competent contractors is limited. New contractors may be able to provide innovative services and should be given the opportunity. Program requirements may encourage contracting with new emerging organizations to meet the needs of the targeted

population. Agencies should be able to assess the risks associated with a contractor prior to entering into a contract and monitor appropriately.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ The state would contract with knowledgeable contractors which would help ensure that public funds are being spent correctly and that services provided adequately fill the needs of agency clients. Technical training and technical resources would help the contractors fulfill their contractual obligations.
- ✓ Agency staff would not have to spend as much time answering general questions and providing technical financial assistance to contractors and could devote more time and energy to program specific issues.
- ✓ Contractors that attend the training and answer the self-assessment questionnaire would have a better understanding of their contractual obligations. They would be able to assess their capability to manage the financial and administrative aspects of a state contract. The contractors could decide if they need additional resources or systems to adequately comply with state social service contracting requirements.
- ✓ Contractor relations with the state would improve. This would then enhance the cooperative nature of providing social services, which would, in turn, improve the quality of the services for agency clients. Flexibility and willingness to work together is an important factor when working in the social services area.

Promoting Coordination and Information Sharing

Contractors frequently work with multiple funding sources to provide an effective mix of services to state clients. For example, nearly 60% of the contractors responding to the Task Force survey reported they manage five or more contracts with state agencies annually. However, coordination of contracting and contract management activities within and between state agencies and programs is limited. Lack of coordination and communication among state agencies and funding sources is a significant issue for state contracting officers, contractors and legislators.

The Task Force determined that oversight of contractors with multiple funding sources is a major challenge for state agencies. Currently, agency monitoring activities are, in most cases, undertaken separately by each program, resulting in duplicative levels of review of the contractors' management systems. Monitoring too is often focused on a single funding source that is unlikely to detect possible problems with resource "blending," an issue highlighted by the work of the House Select Committee on Vendor Contracting and the State Auditor's Office.

Recognizing the need to improve coordination of state contracting activities, the Task Force formed a work group to develop recommendations which could be undertaken to improve coordination of contract administration and oversight practices. The work group developed goals, values, assumptions and recommendations. Additionally, the work group recognized that an effective coordination system will be built in stages, and achieve higher levels of collaboration and resource sharing over time. Initial coordination efforts would focus on creating systems for developing and sharing information that address common social service contract management issues.

➤ **INTERAGENCY QUALITY IMPROVEMENT TEAM: Form a multi-agency team of agency staff with expertise in social service contract administration to be coordinated by OFM.**

The Interagency Quality Improvement Team would be an on-going team working to continually improve the contracting process and practices. All state agencies with responsibility for social service contracting would be invited to participate. In addition, several agencies that play a role or have an interest in state client social service contract administration should be included. Participating agencies might include: Attorney General's Office, Community and Technical Colleges, Department of Community, Trade and Economic Development, Department of Corrections, Department of Health, Department of Services for the Blind, Department of Social and Health Services, Department of Veterans Affairs, Employment Security Department, Office of Financial Management, Office of the Superintendent of Public Instruction, State Auditor's Office, University of Washington, and Workforce Training and Education Coordinating Board. Federal human service agencies, county human service departments, social service contractors, and citizens would also be invited to participate in this effort.

The initial task of the team would be the initiation and development of coordinated contract oversight activities for contractors with multiple state contracts. Resources could be shared to

consolidate and eliminate duplicative fiscal and administrative monitoring activities. The team could provide a forum for troubleshooting problem situations with specific contractors and could provide joint review and follow-up on monitoring and audit findings.

The team could serve as the coordinating point for other efforts designed to strengthen social service contracting. Some quality initiatives that the team could study are: development of a common tool for required administrative and fiscal monitoring activities, development of compliance guidance for audit requirements, development of performance measures for the recommendations that are implemented, development of recommendations on the topic of progressive sanctions for contractors, and the coordination and streamlining of contracting documents, requirements, and processes.

The OFM Project Coordinator would organize and lead the quality improvement team. Additionally, the OFM Project Coordinator would provide technical assistance and research as requested by the team.

COSTS:

OFM cost for a Project Coordinator is included under the Guidelines recommendation.

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
DSHS	\$0	0	\$ 845,000	6.8	\$ 490,000	6.8	\$ 415,000	5.8

Note: For FY01 DSHS would begin development of an agency-wide, interactive contract database to enhance coordination activities within and outside the department. The cost for the contract database is \$355,000. Employment Security Department, Department of Health, Department of Community, Trade and Economic Development, Superintendent of Public Instruction, and Department of Veterans Affairs indicated that this recommendation can be implemented with existing resources.

RISKS OF MAINTAINING STATUS QUO:

- ✓ The state will continue to operate without the benefit of knowing what other agencies' contract practices are and with whom other agencies are contracting. This will limit the ability to detect duplication of effort, double-billings and other problems.
- ✓ Maintaining the status quo will continue the potential for substantial financial risk. An example of the problem of "blending funds" is the multiple funding source situation with the Washington State Migrant Council. Audits revealed that the Migrant Council had received at least \$6.7 million in excess funds from state and federal sources with the actual amount still to be determined.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ Improved and streamlined social service contracting processes would provide greater accountability for taxpayer dollars. The team would provide a forum for information sharing and discussion on how to continually improve the process.

- ✓ The quality of contract monitoring and auditing would be improved. Focusing on only one funding stream often misses the big picture of “blending of funds” and double payments. Coordinated monitoring and auditing efforts would be more efficient and help reduce costs.
- ✓ Problem cases like the Washington State Migrant Council could be prevented or detected earlier in the contracting process.
- ✓ Coordinated efforts would assist contractors by reducing the impact of the reporting, monitoring and auditing requirements of multiple state programs and agencies. Eliminating duplicative processes would save them time and money and allow them to place greater focus on service delivery. More consistency in contract provisions and requirements, definitions, interpretation and reporting would help contractors understand and comply with contract terms.

➤ **CENTRAL CONTRACT DATABASE: Develop a central client social services contract database by OFM to facilitate sharing of contractor information within and between state agencies.**

The proposed central contract database would provide more convenient access to information on contracting activity across state agencies. Many state agencies maintain some type of contract database for contracts. Presently, that information is not available outside the individual agency and, in some instances, within agencies. This limits the ability of agency staff to readily identify other agencies or programs that may be contracting with a specific organization.

As initially envisioned, the central database would consolidate a limited amount of contract information from the existing agency databases. If the initial database were successful, based on user input, additional data would be added. Ultimately, the database could include: the results of contract monitoring information, contractor program performance information, the results of independent audits, and status of audit resolution.

The OFM Project Coordinator would coordinate the development and implementation of the database and work with the Quality Improvement Team in determining what information would be collected, user format, future needs, and assessment of the effectiveness of the system.

COSTS:

Database development and maintenance costs are:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
OFM	\$0	0	\$ 330,000	0.5	\$ 78,000	0.5	\$ 78,000	0.5

The OFM costs would include the database development and maintenance. The 0.5 FTE would provide technical assistance to contractors and state agencies, testing, quality assurance support,

and ongoing maintenance. The estimated cost for the OFM Project Coordinator is already included in the Guidelines section.

RISK OF MAINTAINING STATUS QUO:

- ✓ The risk of maintaining the status quo are similar to those discussed in the prior Quality Improvement Team discussion. However, looking at just the one troublesome case of the Washington State Migrant Council, the potential loss to the state is substantially more than the cost of this system.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ Providing agencies access to the shared contract information would minimize multiple funding contractor problems. The strategy is to provide a central database to state agencies containing client service contractor information that has on-line query capabilities to contractor information. The database would receive contractor information through interfaces with existing agency systems and would be designed to accommodate additional fields of information in the future.
- ✓ The central social service contractor database would be able to provide useful information to agency staff, legislators and the public. It would also provide reliable information on who the state is contracting with for social services and how many social service contracts are currently active. One of the problems the Task Force encountered in achieving its mission was the lack of reliable statewide contract information.
- ✓ The database would provide agency staff with an accessible method of determining if a potential contractor has other contracts with the state. The staff could then coordinate with the other agency or program. Information and contract administration responsibilities could be shared with the end result being more efficient and effective contract management. The actual benefit or timesaving is difficult to compute because the state currently has no accurate information of the number of multiple funding source contractors.
- ✓ An information sharing system as proposed would also benefit the contractors. Consolidated and shared findings and information would save contractor time and efforts. Consistent contract oversight would reduce contract compliance confusion.

Addressing Perceived Gaps in Contracting

Audits are one element of an effective social services contract oversight structure. Chapter 231, Laws of 1998, directed the Task Force to consider several specific questions related to audits of nongovernmental organizations that contract with state agencies for the delivery of social services. To address the questions raised by the legislature, the Task Force formed a work group to consider what type of audit requirements might be appropriate for state social service contracts. The work group reviewed the state audit provisions as well as single audit models used by other states and the federal government.

The Task Force considered two alternative approaches to audit requirements. A uniform single audit requirement which would apply to all nonprofit and for-profit contractors that annually expend state funds above a set dollar amount or a targeted, risk-based approach similar to the features of RCW 43.88.570 (4).

Taking into account probable risk and key state interests in ensuring accountability for the expenditure of state taxpayer dollars, the Task Force determined that the targeted, risk-based approach is the better alternative. While the uniform single audit approach offers consistency, it would result in more auditing than may be necessary and could overlook contracts that should be audited.

- **RISK-BASED AUDITING: State agency program officials would be assigned the responsibility to determine audit requirements based on a consistent risk-assessment framework that is used to establish overall contract oversight requirements, including monitoring and audit. The overall audit objective needs to be the determination of the allowability and eligibility of expenditures. Audit costs for state funded social service contracts would be treated as a program cost.**

The risk-based model, as envisioned by the Task Force, means the agency determines whether an audit is appropriate based on analysis of risk factors associated with the contract. State program officials would determine the audit requirements on a program or contractor basis. Audit would be authorized only when the agency determines that an audit is advisable given the analysis conducted. Risk assessment criteria would take into account the total state dollars expended by the contractor, use of multiple funding sources, experience and past performance of the contractor, contractor's internal controls, the agency's experience with the program and other factors.

Audit requirements would be applied only to those contracts that would meet the definition of a subrecipient relationship, as used by federally funded programs. Contracts that meet the definition of a vendor relationship should not be subject to audit requirements. Additional guidance to help agencies distinguish subrecipient and vendor determinations, as applied to state funded contracts, would be developed.

Audits would not be used in lieu of monitoring the contract. Timely contract monitoring is key to ensure contract requirements are being fulfilled and to help prevent major problems.

Training would be provided to state agency program staff that enables staff to determine what types of audit requirements should be incorporated into social service contracts and how to make most effective use of audit report results. Training topics would cover: orientation on “what an audit is,” the different types of audits (financial audit, single audit, program audit, agreed upon procedures audit), the differences between auditing and monitoring, what information is and is not provided through an audit, how to use risk assessment to determine appropriate audit requirements, how to coordinate audit efforts and benefits of coordination, how to define audit requirements in contracts, how to review and use audits, and audit follow up and resolution processes.

COSTS:

The estimated cost of providing training to state staff on risk-based auditing is incorporated in the state staff training section.

The estimated agency audit costs were difficult to determine because agencies do not have sufficient contractor information to identify the higher risk contractors. However, agencies estimated the costs based upon the information that was available, as follows.

	FY00		FY01		FY02		FY03	
Agency	Dollars	No. of audits	Dollars	No. of audits	Dollars	No. of audits	Dollars	No. of audits
DSHS	\$0	0	\$ 54,000*	0	\$1,163,000	10,132	\$1,163,000	10,132
DOH	\$0	0	\$ 0	0	\$ 480,000	60	\$ 480,000	60
OSPI	\$0	0	\$ 0	0	\$ 41,000	31	\$ 41,000	31
Total	\$0	0	\$ 54,000	0	\$1,684,000	10,223	\$1,684,000	10,223

*DSHS would hire a staff auditor to conduct audits for the Division of Vocational Rehabilitation.

RISKS OF MAINTAINING STATUS QUO:

- ✓ Under existing law the State Auditor’s Office has the responsibility to perform random audits and risk-based audits of nongovernmental entities receiving more than \$300,000 a year in state funds under state social service contracts. This program has received only limited funds to conduct a few audits. Without the funding of the State Auditor’s Office program or the recommended risk-based agency audits, no or limited funds are available to conduct nongovernmental audits.
- ✓ The Task Force is concerned that audits which met federal standards failed to identify and report the types of problems revealed through special audit work conducted by the State Auditor’s Office and others. For example, until the Office of Superintendent of Public Instruction (OSPI) audit of 1998, audits completed for the Washington State Migrant Council by a reputable certified public accounting firm did not indicate that the federal migrant

education program funds awarded through OSPI were not being used as intended by the terms of the contract between the Migrant Council and OSPI.

BENEFITS OF IMPLEMENTING RECOMMENDATION:

- ✓ By utilizing a risk-based approach, agencies would focus on specific areas that have resulted in problems in the past or which have potential for problems. They would be able to take into account the scope and adequacy of other oversight activities (i.e. agency monitoring efforts and contractor reporting requirements).
- ✓ Limited resources would be more effectively targeted to audit higher risk contractors and provide greater taxpayer accountability.

CONTRACT MANAGEMENT AND MONITORING COSTS

The responsibilities and costs associated with contract management and monitoring are often overlooked when agencies decide to contract for services. When these responsibilities and costs are overlooked, fewer and fewer resources are then available to ensure adequate contract management and monitoring. Administrative overhead is often reduced in tight budget years and more services are contracted out which provides a false sense of saving money. However, poor

contracting practices and/or little or no monitoring will eventually become apparent. Even with only a few well publicized cases, as cited in the original report, the state potentially could be responsible for millions of dollars of overpayments. One must also consider that other social service contracts may not have been adequately monitored or may have been poorly written.

“Contract administration costs are often overlooked by government while making the buy or make decisions...Total Contracting Cost = Contractor Cost + Administration Cost + Conversion Costs (Amortized)”

--from Promoting a More Competitive Government: A Report to the General Assembly (Colorado) by the Commission on Privatization.

DSHS has had large administrative budget cuts over the past 10 years, while the dollar amount of funds spent on contracting has increased by approximately 233%. At some point during the past decade, the resources available for contract administration became very limited and the ability to adequately manage and monitor contracts diminished. DSHS has started implementing some of the recommendations of the Task Force, but it has become apparent that the agency does not currently have the resources to ensure the level of accountability that the public demands. Recent well-publicized cases have shown the need for more resources and adequate training.

The following table reflects the DSHS projected costs for adequate contract administration and monitoring:

	FY00		FY01		FY02		FY03	
Agency	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
DSHS	\$0	0	\$0	0	\$1,749,000	22.1	\$1,548,000	21.8

Note: The costs for staff training, auditing, and interagency coordination are listed in the prior sections that specifically cover those recommendations. The DSHS projected number of contracts to be monitored per year for Fiscal Years 2002 and FY 2003 is approximately 123,544 per year.

The Colorado Department of Human Services allocates approximately five percent of its total budget for contract monitoring, auditing and administration expenses. Approximately sixty percent of its budget is for contracted services with local communities, and approximately thirty-five percent is for state operated institutions. Washington state spent over \$8 billion for contracted social and medical services during the 1997-1999 biennium, and it is reasonable to assume that this amount will increase in the next biennium. If Washington followed Colorado's formula of five percent, the state should be budgeting approximately \$400 million for social and medical services contract administration, monitoring and auditing per biennium.

CONCLUSION

Implementing the Task Force recommendations requires a commitment of resources in a time of tight fiscal constraint. Costs may appear high. However, the cost of not implementing these practical and sound business practices is higher in terms of allowing potential financial risks to continue. The actual amount of losses and potential losses is difficult to ascertain. However, the few well-publicized cases discussed in the original report shows that these figures can potentially be very high.

The state will benefit by implementing the Task Force recommendations. The actual dollar amounts saved can not be determined at this time. The intangible benefits, however, are numerous. One of the most obvious is greater public accountability by adopting sound business practices and streamlining the contracting process. Staff and funding resources could be used more efficiently. Information regarding contractors would be available in a central contract database. Contractors would be better

“Successful contracting requires devoting adequate attention and resources to contract development and monitoring. Even when contractors provide services, the government entity remains responsible for the use of the public resources and the quality of the services provided. Governments that privatize social services must oversee the contracts to fully protect the public interest.”

Social Service Privatization-Expansion Poses Challenges in Ensuring Accountability for Program Results, a United States General Accounting Office Report to the Chairman, Subcommittee on Human Resources, Committee on Government Reform and Oversight, House of Representatives, October 1997.

informed about state contracting expectations and therefore better able to meet these standards. Well-trained staff would mean better written contracts and fewer contract errors. Problem contracts could be identified earlier in the contract process, which would give the contractors an opportunity to rectify the problems or end the contract before huge losses are incurred.

Attachments:

- Exhibit 1 – OFM Estimated Fiscal Impact
- Exhibit 2 – DSHS Estimated Fiscal Impact
- Exhibit 3 – DOH Estimated Fiscal Impact
- Exhibit 4 – OSPI Estimated Fiscal Impact

EXHIBIT 1

Office of Financial Management Estimated Fiscal Impact (State General Fund)

Finalize, distribute, publish Guidelines

1 FTE (will coordinate all OFM activities under recommendations)

Salaries & Wages

Benefits

Goods and Services

Total Guidelines Cost

FY00	FY01	Total(00-01)	FY02	FY03	Total (01-03)
1	1	1	1	1	1
\$14,790	\$59,160	\$73,950	\$59,160	\$59,160	\$118,320
\$ 3,210	\$12,840	\$16,050	\$12,840	\$12,840	\$25,680
\$20,000	\$10,000	\$30,000	\$ 2,000	\$ 2,000	\$4,000
\$38,000	\$82,000	\$120,000	\$74,000	\$74,000	\$148,000

State Agency Staff Training/Resource Materials

Goods and Services

Total Resource Materials for Agency Staff Cost

FY00	FY01	Total(00-01)	FY02	FY03	Total (01-03)
\$25,000	\$12,000	\$37,000	\$5,000	\$5,000	\$10,000
\$25,000	\$12,000	\$37,000	\$5,000	\$5,000	\$10,000

Coordinate Contractor Training

Goods and Services

Total Contractor Training Coordination Costs

FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
\$0	\$10,000	\$10,000	\$10,000	\$10,000	\$20,000
\$0	\$10,000	\$10,000	\$10,000	\$10,000	\$20,000

Contractor (trainer) Develop Contractor Training Materials

Goods and Services

Total Contractor Training Materials Costs

FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
\$0	\$40,000	\$40,000	\$0	\$0	\$0
\$0	\$40,000	\$40,000	\$0	\$0	\$0

Contractor Training Costs (trainer)

Goods and Services

Total Contractor Training Costs (trainer)

FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
\$0	\$20,000	\$20,000	\$35,000	\$35,000	\$70,000
\$0	\$20,000	\$20,000	\$35,000	\$35,000	\$70,000

<i>Develop and publish Contractor Resource Materials (FTE part of Guidelines)</i>	FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
Goods and Services	\$13,000	\$4,000	\$17,000	\$5,000	\$5,000	\$10,000
Total Contractor Resource Material Costs	\$13,000	\$4,000	\$17,000	\$5,000	\$5,000	\$10,000
<i>Interagency Quality Team Leader (FTE part of Guidelines)</i>	FY00	FY01	Total(00-01)	FY02	FY03	Total (01-03)
<i>Contract Database Development & Maintenance</i>	FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
Additional FTE	0	0.5	0.5	0.5	0.5	0.5
Salaries & Wages	\$0	\$22,000	\$22,000	\$22,000	\$22,000	\$44,000
Benefits	\$0	\$8,000	\$8,000	\$8,000	\$8,000	\$16,000
Goods and Services	\$0	\$272,000	\$272,000	\$0	\$0	\$0
Equipment	\$0	\$28,000	\$28,000	\$0	\$0	\$0
Maintenance IT equipment	\$0	\$0	\$0	\$48,000	\$48,000	\$96,000
Total Database Development & Maintenance	\$0	\$330,000	\$330,000	\$78,000	\$78,000	\$156,000
TOTAL COST ESTIMATES	FY00	FY01	Total(00-01)	FY02	FY03	Total (02-03)
Salaries & Wages	\$14,790	\$81,160	\$95,950	\$81,160	\$81,160	\$162,320
Benefits	\$3,210	\$20,840	\$24,050	\$20,840	\$20,840	\$41,680
Goods and Services	\$58,000	\$368,000	\$426,000	\$57,000	\$57,000	\$114,000
Equipment	\$0	\$28,000	\$28,000	\$0	\$0	\$0
Maintenance IT equipment	\$0	\$0	\$0	\$48,000	\$48,000	\$96,000
TOTAL COSTS FOR OFM	\$76,000	\$498,000	\$574,000	\$207,000	\$207,000	\$414,000

Exhibit 2 DEPARTMENT OF SOCIAL AND HEALTH SERVICES
Second Draft Estimate of the Fiscal Impact of the Social Services Contracting Guidelines

December 10, 1999

Dollars in Thousands

Agency Total

Implementation of the Guidelines	FY01	99-01 Total	FY02	FY03	01-03 Total
Approximate Number of Contracts to be Monitored	-		123,544	123,544	
Additional FTEs for Contract Monitoring	-	-	22.1	21.8	22.0
Salaries & Wages	-	-	1,072	1,060	2,132
Benefits	-	-	275	272	547
Personal Services Contracts	-	-	-	-	-
Goods & Services	-	-	157	155	312
Travel	-	-	61	61	122
Equipment	-	-	184	-	184
Grants & Subsidies	-	-	-	-	-
Debt Services	-	-	-	-	-
Interagency Reimbursements	-	-	-	-	-
Total Guidelines Costs	-	-	1,749	1,548	3,297
General Fund - State	-	-	1,196	1,066	2,262
Other Funds	-	-	553	482	1,035

Additional Staff Training Costs	FY01	99-01 Total	FY02	FY03	01-03 Total
Total Number of Training Slots	-		-	-	
Additional FTEs to Perform Training	-	-	4.0	4.0	4.0
Salaries & Wages	-	-	174	174	348
Benefits	-	-	45	45	90
Personal Services Contracts	-	-	-	-	-
Goods & Services	-	-	31	31	62
Travel	-	-	2	2	4
Equipment	-	-	33	-	33
Grants & Subsidies	-	-	-	-	-
Debt Services	-	-	-	-	-
Interagency Reimbursements	-	-	-	-	-
Total Training Costs	-	-	285	252	537
General Fund - State	-	-	143	126	269
Other Funds	-	-	142	126	268

Coordination of State Contracting Activities	FY01	99-01 Total	FY02	FY03	01-03 Total
Additional FTEs for Coordination	6.8	3.4	6.8	5.8	6.3
Salaries & Wages	327	327	327	274	601
Benefits	86	86	86	72	158

Personal Services Contracts	-	-	-	-	-
Goods & Services	76	76	76	68	144
Travel	1	1	1	1	2
Equipment	355	355	-	-	-
Grants & Subsidies	-	-	-	-	-
Debt Services	-	-	-	-	-
Interagency Reimbursements	-	-	-	-	-
Total Coordination Costs	845	845	490	415	905
General Fund - State	432	432	250	212	462
Other Funds	413	413	240	203	443

Risk-Based Auditing Costs	FY01	99-01 Total	FY02	FY03	01-03 Total
Number of Contracts Audited	10,000		10,132	10,132	
FTEs to Perform Audits	1.0	0.5	1.0	1.0	1.0
Salaries & Wages	28	28	28	28	56
Benefits	7	7	7	7	14
Personal Services Contracts	-	-	200	200	400
Goods & Services	1	1	918	918	1,836
Travel	10	10	10	10	20
Equipment	8	8	-	-	-
Grants & Subsidies	-	-	-	-	-
Debt Services	-	-	-	-	-
Interagency Reimbursements	-	-	-	-	-
Total Auditing Costs	54	54	1,163	1,163	2,326
General Fund - State	32	32	590	590	1,180
Other Funds	22	22	573	573	1,146

Total Cost Estimate	FY01	99-01 Total	FY02	FY03	01-03 Total
FTEs	7.8	3.9	33.9	32.6	33.3
Salaries & Wages	355	355	1,601	1,536	3,137
Benefits	93	93	413	396	809
Personal Services Contracts	-	-	200	200	400
Goods & Services	77	77	1,182	1,172	2,354
Travel	11	11	74	74	148
Equipment	363	363	217	-	217
Grants & Subsidies	-	-	-	-	-
Debt Services	-	-	-	-	-
Interagency Reimbursements	-	-	-	-	-
Total Costs	899	899	3,687	3,378	7,065
General Fund - State	464	464	2,179	1,994	4,173
Other Funds	435	435	1,508	1,384	2,892

EXHIBIT 3

Department of Health Estimated Fiscal Impact (General State Funds)

<i>Risk-Based Auditing Costs</i>	FY00	FY01	Total(00-01)	FY02	FY03	Total (01-03)
Goods and Services (audit 60 contracts)	\$0	\$0	\$0	\$480,000	\$480,000	\$960,000
Total Risk-Based Audit Costs	\$0	\$0	\$0	\$480,000	\$480,000	\$960,000

DOH will determine implementation costs for the other recommendations in the future.

EXHIBIT 4

Office of Superintendent of Public Instruction Estimated Fiscal Impact (State General Funds)

<i>Risk-Based Auditing Costs</i>	FY00	FY01	Total(00-01)	FY02	FY03	Total (01-03)
Goods and Services (audit 60 contracts)	\$0	\$0	\$0	\$41,000	\$41,000	\$82,000
Total Risk-Based Audit Costs	\$0	\$0	\$0	\$41,000	\$41,000	\$82,000

All other recommendations to be implemented within existing resources.